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Kate O'Rourke
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Consumer and Corporations Division
The Treasury, Sydney
Level 5, 100 Market Street
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14 December 2018

Dear Kate

RE: REDUCING THE FINANCIAL REPORTING BURDEN BY INCREASING THE THRESHOLDS FOR LARGE PROPRIETARY COMPANIES

Thank you for the opportunity to comment on the draft regulation relating to reducing the financial burden by increasing the thresholds for large proprietary companies.

In principle, we are supportive of increasing the thresholds and agree that the current thresholds of consolidated revenue of $25million; consolidated gross assets of $12.5million and total employees of 50 or more, which were established more than a decade ago, should be adjusted over time to keep pace with economic growth.

We would however like to raise three recommendations for your consideration.

1. First, we recommend that the basis for determining the proposed thresholds is clearly explained.

   This will assist in concluding on whether the increases are sufficient or require further revision. Without sufficient insight into the rationale behind these changes we are unable to conclude as to the appropriateness of the proposals. However, we are supportive of increases to the threshold and would not want to unnecessarily delay the implementation of these.

2. Secondly, we recommend consideration of the impact of new Australian Accounting Standards in determining the asset threshold.

   AASB 16 *Leases* the new standard on lease accounting has been issued and is effective for all financial years beginning on or after 1 January 2019.

   AASB 16 requires that all leases (with a limited number of exceptions) will be brought onto the balance sheet by recognising a lease liability for the discounted present value of the future lease payments. This is regardless of their previous classification as operating leases. A corresponding right-of-use asset will be recognised at the commencement of the lease.

Therefore companies who are lessees with leases previously treated as operating leases under the current leasing standard will see an increase in total gross assets.

This directly impacts on the computation of the total consolidated assets threshold and could see many more companies than currently anticipated exceeding the threshold and hence more companies being requiremed to prepare financial statements.

3. Thirdly, we recommend clarifying the definition of the revenue threshold.

   In particular, whether revenue for the purpose of the computation of the threshold is only revenue as defined under AASB 15 *Revenue from Contracts with Customers,* or whether this should be read more broadly to include all forms of income/gains, for example interest income under AASB 9 *Financial Instruments* and gains on disposals of property, plant and equipment etc. It is our understanding that the original thresholds were done so in the context of A-GAAP at the time, which did not address the concept of 'income', only 'revenue', and for this reason clarification to address this is required.

   We recommend a broader definition of revenue that includes gains and other income. This could avoid the potential opportunities for entities to structure group companies with different types of income or gains in different entities to avoid exceeding the thresholds.

   In addition, certain Australian Accounting Standards allow for accounting policy choices that affect whether income is recognised in profit/loss or other comprehensive income (OCI). For example, investments in equity instruments are generally measured at fair value through profit or loss. However, if certain criteria are met entities would be allowed to designate such instruments at fair value through OCI and may escape reporting under the threshold if a narrower concept of income is considered, as a result.

If you have any queries in respect of this submission, please contact Alison White on (02) 9322 5304.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

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Alison White
Partner